



STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

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Memorandum

To: The Honorable Lincoln Almond  
Governor

The Honorable John B. Harwood  
Speaker of the House

The Honorable William V. Irons  
Senate Majority Leader

From: Stephen P. McAllister, CPA  
Executive Director/State Budget Officer

Michael F. O'Keefe  
House Fiscal Advisor

Russell C. Dannecker  
Senate Fiscal Advisor

Date: November 28, 2000

Subject: November 2000 Revenue Estimating Conference

The Consensus Revenue Estimating Conference convened on November 10<sup>th</sup> and 17<sup>th</sup>, 2000. The conference is required to meet at least twice annually to forecast current and budget year revenue estimates. The conference members are the Budget Officer, the House Fiscal Advisor, and the Senate Fiscal Advisor ("Principals"). The estimates adopted by the Conference are based upon collection trends through the month ended October 31, 2000, as well as current law and the economic forecast. The FY 2001 revenue estimate was revised upward from the enacted by \$102.6 million, increasing annual collections to \$2.492 billion, and the FY 2002 initial estimate totaled \$2.479 billion.

***The Economic Forecast***

During the 1997-1998 legislative session, the statutes governing the Revenue Estimating Conference were amended. Beginning with Fiscal Year 1999, the statute requires that the principal members "shall adopt a consensus forecast upon which to base revenue estimates." (R.I.G.L. 35-16-5 (e)).

The principals met with economists on November 8, 2000 to develop the consensus forecast. Testimony was received regarding the national and state economic outlook by Steven Cochrane of Economy.com, Luke Jaramillo of Standard and Poor's DRI, and Frederick Kelly, of The New England Economic Project.

The economic outlook provided by the economists for Rhode Island was generally optimistic. Rhode Island's forecast includes steady employment and income growth, as well as improving demographic trends. Also noteworthy is the fact that Rhode Island's household balance sheets are improving due to increasing home values.

Though there was a disparity among the forecasts, the principals adopted a forecast characterized by low consumer price inflation, continued employment growth, and continued personal income growth. The following table shows the final adopted economic consensus forecast.

The Consensus Economic Forecast			
	FY 2000	FY 2001	FY 2002
<b>Total Employment</b>			
<i>Annual Percentage Change</i>	1.7%	0.9%	0.8%
<b>Total Personal Income</b>			
<i>Annual Percentage Change</i>	5.4%	5.4%	5.3%
<b>Consumer Price Index</b>			
<i>Fiscal Year Annual Percentage Change</i>	2.9%	3.0%	2.2%
<i>Calendar Year Annual Percentage Change</i>	3.4%	2.4%	2.3%

*FY 2001 Revenue Estimate*

The FY 2001 estimate adopted in November 2000 was \$102.6 million greater than the estimate upon which the enacted budget is based, for a total of \$2.492 billion. FY 2001 revenues are expected to be 9.6 percent greater than those collected in FY 2000. Total taxes in FY 2001 are expected to rise by 8.6 percent over the prior fiscal year, largely due to growth in personal income and sales taxes. It should also be noted that FY 2001 revenues include the full (7 percent) value of the sales tax, whereas FY 2000 contained 6.4 percent of the sales tax, since a portion was restricted for the purpose of DEPCO debt repayment. Personal income taxes are expected to total \$863.5 million in FY 2001. Annual growth of 5.7 percent is expected. The income tax estimate includes the fourth phase of the tax rate reduction (to 25.5 percent of federal liability) that becomes effective on January 1, 2001.

Significant revisions were made to several of the general business taxes. The business corporation tax was increased by \$7.3 million, and is expected to yield a total of \$70.0 million for the year. Taxes on financial institutions were increased by \$6.3 million, and are expected to yield \$9.1 million this fiscal year. Revisions in these taxes were made based upon greater than expected FY 2000 collections, as well as current year to date collections. The public utilities gross earnings tax was revised upward by \$2.6 million for a total of \$73.0 million. Franchise and bank deposits taxes, and the health care provider assessment are expected to yield \$7.8 million, \$1.0 million, and \$25.5 million, respectively.

Expected sales tax collections are \$741.3 million, and include the full value of the sales tax, including the portion previously restricted to DEPCO debt repayment. Motor vehicle taxes are expected to yield \$45.4 million, and motor fuel taxes are expected to yield \$0.6 million. Alcohol tax collections are expected to total \$9.3 million. The cigarette tax estimate increased \$0.9 million from the enacted estimate to \$58.2 million. Inheritance tax estimates remain at the enacted level, or an expected total of \$31.0 million. Racing and athletics and realty transfer taxes are expected to garner \$5.3 million, and \$2.2 million, respectively.

Departmental receipts, which include licenses and fees, fines and penalties, sales and services, and miscellaneous revenues collected by individual departments, are expected to total \$252.0 million in the current fiscal year. The total reflects an increase of \$8.2 million from the enacted estimate.

The gas tax transfer to the general fund reflects a decrease from the enacted estimate, with expected collections of \$8.2 million. Lottery receipts are expected to garner \$177.2 million. The revised estimate reflects a decrease from the enacted estimate of \$1.0 million, based on year to date collection patterns. Unclaimed property receipts are expected to total \$3.5 million.

"Other Miscellaneous" receipts are expected to total \$76.2 million. The components in this category include: airport lease payments (\$3.2 million); reimbursements from the Underground Storage Tank Fund (\$1.0 million); Blue Cross Settlement (\$1.7 million); interyear adjustments (\$0.5 million); tobacco settlement proceeds (\$43.9 million); employee medical recovery (\$6.0 million); elderly transportation Medicaid reimbursements (\$0.8 million); bond closeouts (\$0.8 million); Resource Recovery transfers (\$3.1 million) and DEPCO surplus transfers of \$15.2 million contained in the enacted budget. The revenue estimate in the enacted budget also contained \$61.7 million for sales tax proceeds dedicated to DEPCO, but not required for debt defeasance. Since the debt is now fully repaid, the excess sales tax is contained within the general revenue sales tax estimate, and is no longer reflected in the Other Miscellaneous transfer category.

#### *FY 2002 Revenue Estimate*

The November 2000 Revenue Estimating Conference estimated FY 2002 revenues for the first time. FY 2002 revenues are expected to be 0.5 percent less than those collected in FY 2001. The estimate for the budget year totals \$2.479 billion.

Total taxes in FY 2002 are expected to rise by 3.7 percent over the prior fiscal year, largely due to growth in personal income and sales taxes. Personal income taxes are expected to total \$906.5 million in FY 2002. Annual growth of 5.0 percent is expected. The income tax estimate includes the last phase of the tax rate reduction (to 25.0 percent of federal liability) that will become effective on January 1, 2002.

Estimated revenues for FY 2002 for business corporations and financial institutions taxes are less than the revised FY 2001 estimate. (FY 2001 collections included significant one-time and late payments for prior year liabilities.) The business corporation tax was reduced by \$2.0 million, and is expected to yield a total of \$68.0 million for the year. Financial institutions taxes are \$3.1 million less, with total anticipated collections of \$6.0 million.

With the exception of the health care provider tax, which was increased by \$1.1 million (for a total of \$26.6 million), the remaining business taxes were estimated at FY 2001 levels.

The sales tax estimate for FY 2002 is \$775.8 million, anticipating an annual increase of \$34.5 million, or growth of 4.7 percent. Motor vehicle taxes are expected to yield \$46.0 million, and motor fuel taxes are expected to yield \$0.6 million. Alcohol tax collections are expected to remain at the FY 2001 level of \$9.3 million.

Cigarette tax collections are expected to further decline by \$1.2 million or 2.1 percent, due to a continued decline in consumption. Total collections of \$57.0 million are expected in the budget year.

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Inheritance tax, racing and athletics taxes, and realty transfer tax collections are expected to remain at FY 2001 levels of \$31.0 million, \$5.3 million, and \$2.2 million, respectively. Departmental receipts are expected to total \$177.7 million in FY 2002. The annual reduction of \$74.3 million is chiefly caused by the expiration of the hospital license fee.

The gas tax yield per penny for FY 2002 is estimated to be \$4.71 million. The general fund transfer of three-fourths of one cent equals \$3.5 million. The FY 2002 estimate for lottery transfers equals \$187.2 million, or annual growth of 5.6 percent. Unclaimed property receipts are expected to be equal to those collected in FY 2001, for a total of \$3.5 million.

"Other Miscellaneous" receipts are expected to total \$59.2 million. The FY 2002 estimate is \$17.0 million less than FY 2001. Most of the difference is attributable to exclusion of \$3.1 million in Resource Recovery transfers; \$6.0 million for employee medical recovery; \$0.8 million for elderly transportation Medicaid reimbursement; and \$15.2 million for DEPCO transfers. These reductions are offset in large part by tobacco settlement proceeds of \$53.3 million (which are \$9.4 million greater than the FY 2001 estimated payment of \$43.9 million). Other components of this category include the airport lease payment (\$3.2 million); anticipated reimbursement from the Underground Storage Tank Fund (\$1.0 million); interyear adjustments (\$0.4 million); and bond closeouts (\$0.8 million). Lastly, \$0.5 million is estimated for Blue Cross settlement payments.

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Enclosure

**Table 1**

	<b>FY 2000</b>	<b>Growth</b>	<b>FY 2001</b>	<b>Growth</b>	<b>FY 2002</b>	<b>Growth</b>
	<b>Preliminary</b>		<b>Nov. Consensus</b>		<b>Nov. Consensus</b>	
<b>Personal Income Tax</b>	817,079,620	7.9%	863,500,000	5.7%	906,500,000	5.0%
<b>General Business Taxes</b>						
Business Corporations	68,505,553	3.0%	70,000,000	2.2%	68,000,000	-2.9%
Franchise	7,746,246	-1.9%	7,800,000	0.7%	7,800,000	0.0%
Public Utilities Gross Earnings	73,011,717	10.0%	73,000,000	0.0%	73,000,000	0.0%
Financial Institutions	7,683,012	-568.6%	9,100,000	18.4%	6,000,000	-34.1%
Insurance Companies	31,324,916	-1.0%	31,300,000	-0.1%	31,300,000	0.0%
Bank Deposits	947,979	-254.8%	1,000,000	5.5%	1,000,000	0.0%
Health Care Provider Assessment	24,641,523	2.8%	25,500,000	3.5%	26,600,000	4.3%
<b>Sales and Use Taxes</b>						
Sales and Use	631,304,598	11.8%	741,300,000	17.4%	775,800,000	4.7%
Motor Vehicle	42,960,129	2.3%	45,400,000	5.7%	46,000,000	1.3%
Motor Fuel	641,041	-36.6%	641,000	0.0%	641,000	0.0%
Cigarettes	59,392,252	-3.5%	58,200,000	-2.0%	57,000,000	-2.1%
Alcohol	9,209,855	2.0%	9,300,000	1.0%	9,300,000	0.0%
Controlled Substances	165	-	0	-	0	-
<b>Other Taxes</b>						
Inheritance and Gift	35,563,398	-2.1%	31,000,000	-12.8%	31,000,000	0.0%
Racing and Athletics	5,374,515	-7.4%	5,300,000	-1.4%	5,300,000	0.0%
Realty Transfer	2,173,033	-15.9%	2,200,000	1.2%	2,200,000	0.0%
<b>Total Taxes</b>	<b>1,817,559,552</b>	<b>8.5%</b>	<b>1,974,541,000</b>	<b>8.6%</b>	<b>2,047,441,000</b>	<b>3.7%</b>
<b>Departmental Receipts</b>						
Licenses and Fees	108,899,760	5.5%	146,700,000		74,600,000	-49.1%
Fines and Penalties	27,946,627	1.1%	23,000,000		23,000,000	0.0%
Sales and Services	33,386,484	3.9%	24,800,000		24,600,000	-0.8%
Miscellaneous	34,758,870	-5.1%	57,500,000		55,500,000	-3.5%
<b>Total Departmental Receipts</b>	<b>204,991,741</b>	<b>2.7%</b>	<b>252,000,000</b>	<b>22.9%</b>	<b>177,700,000</b>	<b>-29.5%</b>
<b>Taxes and Departmentals</b>	<b>2,022,551,293</b>	<b>7.9%</b>	<b>2,226,541,000</b>	<b>10.1%</b>	<b>2,225,141,000</b>	<b>-0.1%</b>
<b>Other Sources</b>						
Gas Tax Transfer	14,320,229	-28.5%	8,167,250	-43.0%	3,532,500	-56.7%
Other Miscellaneous	83,412,911	424.9%	76,190,797	-8.7%	59,193,763	-22.3%
Lottery	150,283,635	12.6%	177,200,000	17.9%	187,200,000	5.6%
Unclaimed Property	3,520,488	-21.6%	3,500,000	-0.6%	3,500,000	0.0%
<b>Other Sources</b>	<b>251,537,263</b>	<b>44.6%</b>	<b>265,058,047</b>	<b>5.4%</b>	<b>253,426,263</b>	<b>-4.4%</b>
<b>Total General Revenues</b>	<b>2,274,088,556</b>	<b>11.0%</b>	<b>2,491,599,047</b>	<b>9.6%</b>	<b>2,478,567,263</b>	<b>-0.5%</b>

**Table 2**

	FY 2001	FY 2001	Difference
	Enacted	Nov. Consensus	
<b>Personal Income Tax</b>	825,402,344	863,500,000	38,097,656
<b>General Business Taxes</b>			
Business Corporations	62,700,000	70,000,000	7,300,000
Franchise	7,800,000	7,800,000	-
Public Utilities Gross Earnings	70,400,000	73,000,000	2,600,000
Financial Institutions	2,800,000	9,100,000	6,300,000
Insurance Companies	33,500,000	31,300,000	(2,200,000)
Bank Deposits	900,000	1,000,000	100,000
Health Care Provider Assessment	25,300,000	25,500,000	200,000
<b>Sales and Use Taxes</b>			
Sales and Use	657,965,831	741,300,000	83,334,169
Motor Vehicle	45,400,000	45,400,000	-
Motor Fuel	1,010,000	641,000	(369,000)
Cigarettes	57,300,000	58,200,000	900,000
Alcohol	9,000,000	9,300,000	300,000
Controlled Substances	0	0	-
<b>Other Taxes</b>			
Inheritance and Gift	31,000,000	31,000,000	-
Racing and Athletics	5,000,000	5,300,000	300,000
Realty Transfer	2,200,000	2,200,000	-
<b>Total Taxes</b>	<b>1,837,678,175</b>	<b>1,974,541,000</b>	<b>136,862,825</b>
<b>Departmental Receipts</b>			
Licenses and Fees	136,527,377	146,700,000	10,172,623
Fines and Penalties	23,000,000	23,000,000	-
Sales and Services	31,612,029	24,800,000	(6,812,029)
Miscellaneous	52,691,512	57,500,000	4,808,488
<b>Total Departmental Receipts</b>	<b>243,830,918</b>	<b>252,000,000</b>	<b>8,169,082</b>
<b>Taxes and Departmentals</b>	<b>2,081,509,093</b>	<b>2,226,541,000</b>	<b>145,031,907</b>
<b>Other Sources</b>			
Gas Tax Transfer	8,400,000	8,167,250	(232,750)
Other Miscellaneous	117,452,542	76,190,797	(41,261,745)
Lottery	178,165,586	177,200,000	(965,586)
Unclaimed Property	3,500,000	3,500,000	-
<b>Other Sources</b>	<b>307,518,128</b>	<b>265,058,047</b>	<b>(42,460,081)</b>
<b>Total General Revenues</b>	<b>2,389,027,221</b>	<b>2,491,599,047</b>	<b>102,571,826</b>